

**CITY OF HUDSON**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2012**

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## **City of Hudson**

### **Officials**

#### **(Before January 2012)**

Bernie Jensen	Mayor	Dec 2011
Robert Grittmann	Mayor Pro Tempore	Dec 2013
David Spake	Mayor Pro tem	Dec 2011
George Wessel	Council Member	Dec 2011
Allen Schneider	Council Member	Dec 2011
Dennis Sadler	Council Member	Dec 2013
Sandie Deahl	City Coordinator/Clerk	January 1, 2012
Richard Hansen	Attorney	January 1, 2012

#### **(After December 2011)**

Kevin Launderville	Mayor	Dec 2013
Robert Grittmann	Mayor Pro Tem	Dec 2013
Brad Ingamells	Council Member	Dec 2015
Mark Evers	Council Member	Dec 2015
Jerry Volker	Council Member	Dec 2015
Dennis Sadler	Council Member	Dec 2013
Sandie Diehl	City Coordinator/Clerk	January 1. 2013
Richard Hansen	Attorney	January 1, 2013

**City of Hudson**



James R. Ridihalgh, C.P.A.  
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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hudson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2012 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity

with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages I through VIII and 24 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Riditelyh, Truelling, Litcher, Weber & Co., P.C.*

November 2, 2012

## MANAGEMENT DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- The City's revenues increased by \$444,000 from fiscal year 2011 to fiscal year 2012. Receipts in the City's governmental funds increased by \$478,000, receipts in the City's business funds decreased by \$34,000.
- Disbursements increased \$2,437,000 overall from fiscal year 2011. Increased expenses in the governmental funds were increased by \$2,503,000 and decreased expenses in the business funds were \$66,000. The variables in governmental and business funds spending reflects a completion of projects and purchase of equipment from reserves.
- The City's total cash basis net assets increased \$2,367,000 from fiscal year 2011 to fiscal year 2012 to a total of \$4,904,397. The increase in the cash basis reflects recall on and purchase of general obligation bonds of \$4.8 million.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.



Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

#### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

#### REPORTING THE CITY'S FINANCIAL ACTIVITIES

##### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric utility, water utility, sanitary sewer system and the solid waste disposal funds. These activities are financed primarily by user charges.

## Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. Further, governmental fund financial statements classify cash basis fund balances as 1) Nonspendable, 2) Restricted, 3) Assigned, or 4) Unassigned. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, and Sewer funds, considered to be major funds of the City, and the Electric, and Solid Waste Disposal considered to be non-major funds of the City. The City of Hudson no longer has an electric utility; however, in 2012 a balance remained within the fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.
- 3) The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances. Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

# GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$2.022 million to \$4.561 million. The analysis that follows focuses on the changes in cash balances for *governmental activities*. Changes in

## Cash Basis Net Assets of Governmental Activities

(Expressed in Thousands)

Year Ended June 30, 2012

Description	2012	% of Total	2011	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services	90	4%	71	4%
Miscellaneous	107	5%	55	3%
General Receipts:				
Property Tax	807	37%	768	45%
Tax Increment Financing	85	4%	90	5%
Other City Taxes	288	13%	255	15%
Licenses & Permits	98	4%	63	4%
Use of Money & Property	59	3%	36	2%
Intergovernmental	650	30%	369	22%
<b>Total Receipts</b>	<b>\$2,186</b>	<b>100%</b>	<b>\$1,708</b>	<b>100%</b>
Disbursements:				
Public Safety	606	14%	467	24%
Public Works	325	7%	420	21%
Health and Social Services	3	0%	3	0%
Culture and Recreation	402	9%	363	18%
Community & Economic Development	53	1%	47	2%
General Government	240	5%	192	10%
Debt Service	201	4%	200	10%
Capital Projects	2,654	59%	289	15%
<b>Total Disbursements</b>	<b>\$4,484</b>	<b>100%</b>	<b>\$1,981</b>	<b>100%</b>
Excess if receipts over disbursements	(2,298)			
Total other financing sources	4,835		19	
Increase in cash basis net assets	2,537		-254	
Cash basis net assets beginning of year	<u>2,022</u>		<u>2,277</u>	
Cash basis net assets end of year	<b>4,559</b>		<b>2,022</b>	

The City's total receipts and transfers for governmental activities increased by \$478,000. The total cost of all programs and services increased by \$2.503 million, with no new programs added this year.

The City did not increase general fund property tax rates for 2012. Property tax receipts increased by \$39,000. The City had governmental funds borrowing in fiscal 2012 of \$4.8 million to pay down the existing 2006 General Obligation Bond of \$2.1 million and add new debt of \$2.7 million.

The costs of all governmental activities this year was \$4.559 million compared to \$1.981 million last year. Overall the City's governmental program receipts, increased in 2011 from approximately \$126,911 to \$478,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2.537 million in a general obligation bond sale, property tax, local option tax, and tax increment financing receipts.

Total business type activities receipts, debt proceeds and transfer in for the fiscal year were \$821,916 compared to \$871,550 last year. Total disbursements and transfers for the fiscal year were \$992,390 compared to \$1,051,527 last year.

Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)  
Year Ended June 30, 2012

Description	2012	% of Total	2011	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services				
Water	310	42%	295	33%
Sewer	266	36%	254	29%
Non-major	158	21%	150	17%
General Receipts:				
Unrestricted interest on investments	4			
Miscellaneous & Debt Proceeds	5	-10%	100	
Other and Transfers in	78	11%	73	
Total Receipts	821	100%	885	100%
Disbursements:				
Water	260	32%	309	30%
Sewer	417	51%	434	42%
Non-major	216	17%	216	21%
Total Disbursements	893	100%	959	100%
Transfers Out	98		92	
Increase (Decrease) in cash balance	-171		-180	
Cash basis net assets beginning of year	<u>514</u>		<u>694</u>	
Cash basis net assets end of year	<b>344</b>		<b>513</b>	



## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project within the City's business district. The cash balance in the TIF Fund was \$161,239 an increase of \$3,051 over the 2011 fund balance of \$161,238. A Northern Tier Commercial Urban Renewal Area was established by the City of Hudson in fiscal year 2011 with no revenues or expenses certified.
- The Debt Service Fund was supported by transfers in of \$84,563 from the TIF Fund, \$96,000 from the Road Use Fund, and \$20,000 from the Sewer Fund. No property taxes were levied to pay down general obligation bonds. The 2006 GO Obligation Debt was retired on September 15, 2011 in the amount of \$2,195 million, the \$46,000 Water Revenue Bond issued February 15, 2010 was forgiven per ARRA funding eligibility. New GO Obligation Debt was issued on September 15, 2011 in the amount of \$4.815 million, leaving an outstanding balance of debt of \$3.256 million. The remaining balance in the Debt Service Fund was \$565.51.
- The Local Option Sales Tax Fund had receipts of \$87,783 and then transferred \$335,300 to the general fund. The net result was an decrease \$46,816 leaving an ending Local Option Sales tax Fund balance of \$467,898.
- The Water Fund cash balance increased by \$15,194 to \$342,964 due to a reallocation in expenses for bonding and an increase in water utility rates to offset increased expenses of purchased water from Waterloo Water Works. Ending balance for the Water Fund is \$42,964. The Water Sinking Fund cash balance remained at (\$3,003) as receipts in and disbursements out of the fund were equal at \$43,445.
- The Sewer Fund cash balance decreased by \$206,2900 to (\$88,144) due to expenses relating to Capital Projects including liner repairs at the Waste Water Treatment Plant and extending sewer main within the community. Ending balance for the Sewer Fund is (\$88,144). The Sewer Sinking Fund cash balance increased by \$2,043 to a total balance of 5,118 due to receiving \$35,032 in assets yet spending only \$32,989 in 2012.
- The Storm Water Fund balance increased by \$20,319 with expenditures of \$14,766 being less than Revenues received of \$35,085. Ending fund balance for Storm Water is \$55,151.
- The Solid Waste Fund balance decreased by \$1,741 with expenditures of \$25,145 being more than Receipts received at \$123,404. Ending fund balance for Solid Waste is \$14,787.
- The Non-major Fund cash balance increased by \$922 to (\$218,255). The decrease was due to increased revenues in the IJOBS Special Revenue Fund due to a state/federal reimbursement on the Cedar Street project, and an increase in the Capital Project debt of (\$439,077). The balance in the Non-major Fund reflects a cash basis total of \$163,282 with a restricted balance amount for other purposes of (\$381,537) leaving \$218,255 unassigned Non-major Fund in 2012.



- Capital Project Funds were established or maintained for the Northern Business Park, Cedar Street Storm Water Project, Washington/Waterloo/6<sup>th</sup> Street Intersection, Safe Room, and Ardis Street with a combined ending fund cash balance of (\$439,077) an increase of \$69,594 from 2011. Expenses are anticipated to be recouped with TIF Financing, Grants, Internal Fund Transfers, or Bond Notes.

Capital Projects Ending Balances for 2012

SAFE ROOM	(\$12,439)
Northern Tier	(\$226,032)
Cedar Street	(\$126,074)
Ardis Street	(\$74,622)

- Special Revenue Funds increased by \$57,540 to a year ending balance of \$220,257.

Special Revenue Ending Balances for 2012

Ragbrai	(\$4,225)
IJOBS	\$67,790
Employee Benefits	(\$5,724)
TIF Capital Projects	\$10,498
TIF Surplus	\$152,219
TIF	(\$1,959)
Unemployment Benefits	\$1,658)

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The net result of that amendment was to increase revenues by \$3,725,315. Budgeted expenditures increased by \$2,261,722 with \$1,955,222 of the increase in expenditures attributable to governmental activities and the remaining \$306,500 paid out of the business activities. The budget increase was partially to reflect the new G.O. Bond receipts and the payoff of the 2006 G.O. Bond not included in the original FY11 budget.

## DEBT ADMINISTRATION

At June 30, 2011 the City had \$2,195,000 of General Obligation Capital Loan Notes paid down. With a new General Obligation Capital Loan Note issued September 15, 2011 in the amount of \$4,815,000. In the fiscal year ended June 30, 2006 two loans were taken from the State Revolving Fund, a \$630,000 Water Revenue Capital Loan Note, on which \$27,000 plus interest was repaid, and a \$415,985 Sewer Revenue Capital Loan Note, on which \$22,000 plus interest was repaid. The City of Hudson's A 2010 revenue bond debt of \$46,000 Forgivable Loan was forgiven per a Water Revenue Bond Note in 2012, and a \$183,000 Water Revenue Bond Note issued in 2010, on which \$7,000 plus interest was repaid. The net comparison is as show below:

Outstanding Debt at Year End

(Expressed in Thousands)

Year Ending June 30, 2012

Description	2012	2011
2006 General Obligation-Capital Loan Note	0	2,195
2011 General Obligation-Capital Loan Note	4,735	4,815
2006 Water Revenue Capital Loan Note	479	506
2006 Sewer Revenue Capital Loan Note	316	338
2010 Water Revenue Capital Loan Note	0	46
2010 Water Revenue Capital Loan Note	169	171
<hr/>		
Total Outstanding Debt	5,699	8,071

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,735,000 is below its constitutional debt limit of \$7,970,827.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget.

Amounts available for appropriation in the operating budget are 5.680million, a decrease of \$781,000 over the 2012 estimated budgetary amounts. This is due in a large part to a reduction in cost of services and anticipated receipts of grants. Budgeted disbursements are \$781,000 less than budgeted for 2012. This decrease is due to a reduction in capital projects; and all over reduction in operational expenses due to decreased revenues. The City has added no major new programs; however, it is anticipated that expenses will cost no more than anticipated revenues for fiscal year 2013 budgetary accounting. This number will fluctuate within the fiscal year 2013 due to capital project completion or delays, grant receipts, or emergency action items on behalf of the city.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandie Deahl, City Clerk/Coordinator, 525 Jefferson Street, Hudson, Iowa, 50643. Phone (319) 988-3600.

## **Basic Financial Statements**

## City of Hudson

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 606,162	328,375	82,537	-
Public works	324,787	-	216,450	43,929
Health and social services	2,750	-	-	-
Culture and recreation	402,206	26,148	57,997	-
Community and economic development	52,982	45,373	-	-
General government	240,157	64,238	-	-
Debt service	200,988	-	-	-
Capital projects	2,653,824	-	-	-
Business type	-	-	-	-
Total governmental activities	4,483,856	464,134	356,984	43,929
Business type activities:				
Sewer	417,642	258,684	-	-
Water	259,927	302,843	-	-
Nonmajor business type funds	216,344	158,490	-	-
Total business type activities	893,913	720,017	-	-
Total	\$ 5,377,769	1,184,151	356,984	43,929
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest				
Rents				
G.O. Bond				
SRF Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt Service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(195,250)	-	(195,250)
(64,408)	-	(64,408)
(2,750)	-	(2,750)
(318,061)	-	(318,061)
(7,609)	-	(7,609)
(175,919)	-	(175,919)
(200,988)	-	(200,988)
(2,653,824)	-	(2,653,824)
-	-	-
(3,618,809)	-	(3,618,809)
-	(158,958)	(158,958)
-	42,916	42,916
-	(57,854)	(57,854)
-	(173,896)	(173,896)
(3,618,809)	(173,896)	(3,792,705)
807,127	-	807,127
85,071	-	85,071
287,783	-	287,783
36,327	18,046	54,373
3,200	-	3,200
4,815,000	-	4,815,000
-	5,000	5,000
102,816	376	103,192
20,000	(20,000)	-
6,157,324	3,422	6,160,746
2,538,515	(170,474)	2,368,041
2,022,356	514,000	2,536,356
\$ 4,560,871	343,526	4,904,397
51,758	-	51,758
565	-	565
631,180	-	631,180
3,877,368	343,526	4,220,894
\$ 4,560,871	343,526	4,904,397



## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2012

	General	Special Revenue Road Use Tax-#110	Local Option Tax-#121	Capital Proj. Bond Sale 2011-# 320	Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 673,951	-	-	-	133,177	807,128
TIF collections	-	-	-	-	85,072	85,072
Other city tax	-	-	288,484	-	-	288,484
Licenses and permits	98,309	-	-	-	-	98,309
Use of money and property	56,437	-	-	-	2,840	59,277
Intergovernmental	178,270	216,450	-	-	255,859	650,579
Charges for service	90,566	-	-	-	-	90,566
Miscellaneous	63,884	-	-	44,072	-	107,956
Total receipts	1,161,417	216,450	288,484	44,072	476,948	2,187,371
Disbursements:						
Operating:						
Public safety	606,162	-	-	-	-	606,162
Public works	253,491	71,296	-	-	-	324,787
Health and social services	2,750	-	-	-	-	2,750
Culture and recreation	401,864	-	-	-	342	402,206
Community and economic development	49,153	-	-	-	3,829	52,982
General government	240,157	-	-	-	-	240,157
Debt service	-	-	-	-	200,988	200,988
Capital projects	42,167	-	-	2,355,048	256,609	2,653,824
Business Type	-	-	-	-	-	-
Total disbursements	1,595,744	71,296	-	2,355,048	461,768	4,483,856
Excess of receipts over disbursements	(434,327)	145,154	288,484	(2,310,976)	15,180	(2,296,485)
Other financing sources (uses):						
Operating transfers in	467,558	-	-	-	202,563	670,121
Operating transfers out	(2,000)	(96,000)	(335,300)	-	(216,821)	(650,121)
Series 2011 G.O. Bond	-	-	-	4,815,000	-	4,815,000
Total other financing sources (uses)	465,558	(96,000)	(335,300)	4,815,000	(14,258)	4,835,000
Net change in cash balances	31,231	49,154	(46,816)	2,504,024	922	2,538,515
Cash balances beginning of year	1,724,215	2,604	514,714	-	(219,177)	2,022,356
Cash balances end of year	\$ 1,755,446	51,758	467,898	2,504,024	(218,255)	4,560,871
Cash Basis Fund Balances						
Restricted For:						
Streets	-	51,758	-	-	-	51,758
For Other Purposes	-	-	467,898	-	163,282	631,180
Debt Service	-	-	-	2,504,024	-	2,504,024
Unassigned	\$1,755,446	-	-	-	(381,537)	1,373,909
Total cash basis fund balances	\$ 1,755,446	51,758	467,898	2,504,024	(218,255)	4,560,871

See notes to financial statements

## City of Hudson

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Governmental Funds

As of and for the year ended June 30, 2012

Total governmental funds cash balances (page 9)	\$ 4,560,871
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The city does not have an internal service fund.  
Therefore there are no reconciling items.

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Cash basis net assets of governmental activities (page 8)	\$ 4,560,871
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Net change in cash balances (page 9)	\$ 2,538,515
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The city does not have an internal service fund.  
Therefore there are no reconciling items.

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Change in cash balance of governmental activities (page 8)	\$ 2,538,515
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See notes to financial statements

## City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2012

	Sewer	Water	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 266,384	309,666	158,489	734,539
Use of money and property		3,900	-	3,900
Miscellaneous	-	-	-	-
Total operating receipts	266,384	313,566	158,489	738,439
Operating disbursements:				
Business type activities	417,642	259,927	216,344	893,913
Total operating disbursements	417,642	259,927	216,344	893,913
Excess (deficiency) of operating receipts over (under) operating disbursements	(151,258)	53,639	(57,855)	(155,474)
Non-operating receipts				
SRF Proceeds	-	5,000	-	5,000
Total non-operating receipts	-	5,000	-	5,000
Excess of receipts over (under) disbursements	(151,258)	58,639	(57,855)	(150,474)
Operating transfers in	-	-	78,477	78,477
Operating transfers out	(55,032)	(43,445)	-	(98,477)
Net change in cash balances	(206,290)	15,194	20,622	(170,474)
Cash balances beginning of year	118,146	327,770	68,084	514,000
Cash balances end of year	\$ (88,144)	342,964	88,706	343,526
<b>Cash Basis Fund Balances</b>				
Unrestricted	\$ (88,144)	342,964	86,591	341,411
Restricted for Debt Service	-	-	2,115	2,115
Total cash basis fund balances	\$ (88,144)	342,964	88,706	343,526



## City of Hudson

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Proprietary Funds

As of and for the year ended June 30, 2012

Total enterprise funds cash balances (page 11)	\$ 343,526
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The city does not have an internal service fund.  
Therefore there are no reconciling items.

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Cash basis net assets of business type activities (page 9)	\$ 343,526
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Net change in cash balances (page 11)	\$ (170,474)
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The city does not have an internal service fund.  
Therefore there are no reconciling items.

-

Change in cash balance of business type activities (page 9)	\$ (170,474)
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See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2012

**(1) Summary of Significant Accounting Policies**

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

These financial statements present the City of Hudson (the primary government) and excludes Hudson Municipal Electric Utility (HMEU). HMEU is a legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the City Council. HMEU is a public utility providing electrical service to the citizens of Hudson. Complete financial statements can be obtained from the Utility's administrative office.

**A. Reporting Entity**

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Consolidated Public Safety Communications Board, Black Hawk Conference Board, Black Hawk County Management Ageing, Black Hawk County Solid Waste Management Commission and Multi-Jurisdictional Hazard Mitigation Plan-Dunkerton and Gilbertville.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund (#110) is used to account for road construction and maintenance.



The Local Option Tax Fund (#121) is used to account for the receipt and disbursement of the Local Option Tax.

Capital Projects:

The Bond Sale Fund (#320) is used to account for the proceeds and disbursements of the 2011 series General Obligation Bond.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or

state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012 the City exceeded amounts budgeted in the culture and recreation program and the capital projects program.

### (2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2012, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days and meet their definition of *Instruments Eligible for Investment*. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

### (3) **Bonds and Notes Payable**

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes and Revenue Bonds are as follows:

Year Ending June	Capital Obligation		Sewer Revenue Bonds		Water Revenue Bonds	
	<u>Capital Loan Notes</u>		<u>Clean Water SRF</u>		<u>Drinking Water SRF</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 215,000	120,553	22,000	11,370	28,000	14,370
2014	220,000	119,478	23,000	10,710	29,000	13,530
2015	225,000	118,048	23,000	10,020	30,000	12,660
2016	225,000	115,910	24,000	9,330	31,000	11,760
2017	265,000	113,210	25,000	8,610	32,000	10,830
2018-2022	1,445,000	487,555	136,000	31,380	171,000	39,450
2023-2027	1,450,000	282,020	62,985	6,660	158,000	12,000
2028-2032	<u>690,000</u>	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$4,735,000</u>	<u>1,426,774</u>	<u>315,985</u>	<u>88,080</u>	<u>479,000</u>	<u>114,600</u>

Year Ending June	Water Rev Bonds 2010		Total	
	Drinking Water SRF		Principal	Interest
	Principal	Interest		
2013	7,000	5,070	272,000	151,363
2014	7,000	4,860	279,000	148,578
2015	8,000	4,650	286,000	145,378
2016	8,000	4,410	288,000	141,410
2017	8,000	4,170	330,000	170,420
2018-2022	44,000	17,070	1,796,000	553,855
2023-2027	52,000	10,020	1,722,985	298,700
2028-2032	<u>35,000</u>	<u>2,130</u>	<u>725,000</u>	<u>72,130</u>
	<u>169,000</u>	<u>52,380</u>	<u>4,973,985</u>	<u>1,609,704</u>

#### General Obligation Corporate Purpose and Refunding Bonds:

The City issued \$4,815,000 in General Obligation Corporate Purpose and Refunding Bonds, dated September 15, 2011, with variable interest ranging from 0.35% to 4.00%. The notes were issued for the purpose of advance refunding of General Obligation Capital Loan Notes dated June 1, 2006 and to finance various improvements, including those to the city's streets, sidewalks, and sewer and water systems.

- Interest on the bonds is payable on June 1 and December 1 each year beginning June 1, 2012. Principal payments are due on June 1 of each year beginning June 1, 2012.
- The notes are subject to prepayment at the option of the Issuer; in each of the years 2020 through 2031 inclusive, prior to and in any order of maturity on June 30, 2019, or on any date thereafter upon terms of par plus interest to date of call.
- The bonds maturing June 1, 2027 and 2031 are subject to Mandatory Sinking Fund Redemption, in part, at 100% of the principal amount to be redeemed plus interest accrued to the date of redemption. Thus the 2027 \$490,000 Term Bond will require a payment of \$330,000 plus interest on June 1, 2026 and the remaining \$160,000 plus interest on June 1, 2027. The payments on the 2031 \$690,000 Term Bond is shown below:

##### 2027 Term Bond

<u>Year</u>	<u>Amount</u>
June 1, 2026	\$330,000
June 1, 2027	<u>160,000</u>
	<u>\$490,000</u>

##### 2031 Term Bond

<u>Year</u>	<u>Amount</u>
June 1, 2028	\$165,000
June 1, 2029	170,000
June 1, 2030	175,000
June 1, 2031	<u>180,000</u>
	<u>\$690,000</u>



### Capital Obligation–Capital Loan Notes:

The City issued \$2,600,000 General Obligation Capital Loan Notes, dated June 1, 2006, with variable interest ranging from 3.85% to 4.30%. The notes were issued for the purpose of paying costs of construction of improvements or extensions to the Municipal Water Utility, and construction or reconstruction of streets, water, sewer and storm sewer, together with related work.

- a. Principal and interest on the notes will be paid from the Debt Service Fund.
- b. The notes are subject to prepayment at the option of the Issuer; as a whole or in part, in any order of maturity and within a maturity by lot from any source of available funds, beginning June 1, 2012 and on any date thereafter, at a prepayment price equal to the principal amount of the Notes, together with accrued interest to the date fixed for prepayment, without premium.

This debt was paid off 6/1/2012 with proceeds from the Series 2011 General Obligation Corporate Purpose and Refunding Bonds.

### Revenue Bonds:

The City has two Revenue Bonds from Iowa Finance Authority and its partner Iowa Department of Natural Resources through the State Revolving Fund.

#### \$500,000 Sewer Revenue Capital Loan Note (SRF):

The Sewer Revenue Capital Loan Note, series 2006, with a principal sum of \$500,000 has an interest rate of 3% and matures June 1, 2026. The funds were used in conjunction with other City funds to construct a diffuser across the receiving stream with the objective of meeting NPDES effluent limits. This project also includes the repair of the lagoon liner to prevent leakage. Sludge removal and installation of emergency power are also part of facility improvements. There are three collection system improvements proposed to replace existing sewers because they are hydraulically overloaded and have excessive infiltration and inflow.”

Interest is payable semiannually on the 1<sup>st</sup> day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$10,989 interest and \$22,000 in principal during year ended June 30, 2012. Balance at June 30, 2012 was \$315,985.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten (10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City has set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the “Sewer Revenue Note Principal and Interest Sinking Fund (the “Sinking Fund”). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6<sup>th</sup> of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12<sup>th</sup> of the installment of principal coming due

on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable.

\$630,000 Water Revenue Capital Loan Note:

The Water Revenue Capital Loan Note, series 2006, with a principal sum of \$630,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2012 the funds were used for the purpose of paying costs of construction of certain improvements and extensions to the Municipal Water Utility of the City.

Interest is payable semiannually on the 1<sup>st</sup> day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$16,445 in interest and \$27,000 in principal during year ended June 30, 2012. Balance at June 30, 2012 was \$479,000.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten (10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City has set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the "Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6<sup>th</sup> of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12<sup>th</sup> of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable.

\$183,000 Water Revenue Loan and Disbursement Agreement:

The Water Revenue Loan and Disbursement Agreement, series 2010A issued pursuant with provisions of Sections 384.24A and 384.83 of the Code of Iowa, 2009, with a maximum loan amount of \$183,000, has an interest rate of 3% and matures June 1, 2030. As of June 30, 2012 the City had borrowed the full \$183,000 on this note. Iowa Finance Authority deducted a 1% initiation fee of \$1,830. The funds are to be used to pay a portion of the cost of constructing improvements on extensions to the Utility.

Bonds are subject to optional redemption at par plus accrued with prior written consent of the Iowa Finance Authority or if Project is damaged or destroyed. Redemption is inverse order of maturity upon no less than thirty days notice of redemption.



Interest is payable semiannually on the first day of June and December in each year beginning June 1, 2010. Principal is payable annually on the first day of June each year beginning June 1, 2011. The City paid \$5,553 in interest and \$7,000 in principal during the year ended June 30, 2012.

The City is to create a Water Revenue Bond Sinking Fund, commencing March 1, 2010, to be used for the purpose of paying principal and interest on the Outstanding Notes.

\$46,000 Forgivable Loan and Disbursement Agreement:

The City had entered into a Forgivable Loan and Disbursement Agreement with the Iowa Department of Natural Resources for \$46,000 on February 15, 2010. The proceeds were used for the operation or infrastructure of the Water System for the purpose of providing safe drinking water to the customers thereof. This loan was forgiven on March 21, 2012 at the completion of the project.

**(4) Pension and Retirement Benefits**

**Iowa Public Employees Retirement System-**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$54,324, \$45,641, and \$43,523, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description-The City operates a single-employee retiree benefit plan which provides medical/ prescription drug benefits for employees and retired employees and their spouses. There are 14 active and retired members in the plan. Participants must be age 55 or older at retirement.

The medical/ prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/ prescription drug benefits as active employees.

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$520 medical and \$25 dental for single coverage, \$984 medical and \$43 dental for employee and children, \$1,064 medical and \$51 dental, and \$1,595 medical and \$76 dental for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$89,536 and plan members eligible for benefits contributed \$17,284 to the plan.

plan members eligible for benefits contributed \$17,284 to the plan.

**(6) Compensated Absences**

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At the end of employment, any employee with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At the end of employment, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2012 is \$19,210. The City's approximate liability for earned comp time payable to employees at June 30, 2012 is \$9,156. The City's approximate liability for sick leave at June 30, 2012 is \$10,715. This liability has been computed based on rates of pay in effect at June 30, 2012.

**(7) Unemployment Fund**

The City files reports with the Iowa Workforce Development (IWD), but pays nothing to IWD. Therefore the City is responsible for any unemployment claims. Beginning in the year ended June 30, 2012 the City created a fund to account for unemployment claims. During the year the City transferred \$2,000 from the General Fund to the newly created Unemployment Fund. The City paid out one claim for \$342.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects:	
	Local Option	\$ 335,300
	Special Revenue:	
	Employee Benefits	<u>132,258</u>
		<u>467,558</u>
Special Revenue:		
Unemployment	General	2,000
Economic Development	Hudson Reserve	200,000
Bldg Condemnation	Hudson Reserve	<u>5,000</u>
		<u>207,000</u>
Debt Service:	Capital Projects:	
	TIF	84,563
	Special Revenue:	
	Road Use Tax	96,000
	Business Type:	
	Sewer	<u>20,000</u>
		<u>200,563</u>



Business Type:	Business Type:	
Water Sinking	Water	<u>43,445</u>
Sewer Sinking	Sewer Sinking	<u>35,032</u>
Total Interfund Transfers		<u>\$ 953,598</u>

**(9) Related Party Transactions**

The City had business transactions between the City and City employees totaling \$8,785 during the year ended June 30, 2012.

**(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Deficit Balance**

The Special Revenue, RAGBRAI, Employee Benefits and TIF Funds, Capital Projects-Safe Room, North Tier, Cedar Street and Ardis Street Funds, and Proprietary Fund-Sewer had deficit balances at June 30, 2012. The City will eliminate with the receipt of funds or the transfer of funds.

**(12) Landfill Commitment**

The City of Hudson participates in a 28E organization with Black Hawk County and other cities in Black Hawk County. This organization is the Black Hawk County Solid Waste Management Commission.

**(13) Hudson Electric Municipal Utility**

The City has formed Hudson Municipal Electric Utility (HMEU). On July 1, 2008 Hudson Municipal Electric Utility (HMEU) took over all electric operations, including the billing and collection, of the City.

**(14) Equipment Leases**

The City had a lease with Waterloo Implement for a 2011 John Deere #5085M tractor and a 2011 John Deere loader #563. The rental term was from May 1, 2011 to April 30, 2012. The City paid \$6,700 on the lease for the year ended June 30, 2012.

The City has a lease with Waterloo Implement for a John Deere zero turn mower. The lease is for the period May 1, 2011 to December 1, 2011. The city paid \$3,000 on this lease for the year ended June 30, 2012.

**(15) Litigation**

There is no pending litigation pending involving the City of Hudson.

**(16) Subsequent Events**

The City has considered significant events through September 17, 2012, the date of the audit, and state that the City has approved a resolution for \$373,635 for Waste Water Treatment Plant Lagoon Liners Replacement.

## Other Information

City of Hudson

Budgetary Comparison Schedule  
of Receipts, disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net
Receipts:				
Property tax	\$ 807,128	-	-	807,128
Tax increment financing collections	85,072	-	-	85,072
Other city tax	288,484	-	-	288,484
Licenses and permits	98,309	-	-	98,309
Use of money and property	59,277	3,900	-	63,177
Intergovernmental	650,579	-	-	650,579
Charges for service	90,566	734,539	-	825,105
Special assessments	-	-	-	-
Miscellaneous	107,956	-	-	107,956
Total receipts	2,187,371	738,439	-	2,925,810
Disbursements:				
Public safety	606,162	-	-	606,162
Public works	324,787	-	-	324,787
Health and social services	2,750	-	-	2,750
Culture and recreation	402,206	-	-	402,206
Community and economic developr	52,982	-	-	52,982
General government	240,157	-	-	240,157
Debt service	200,988	-	-	200,988
Capital projects	2,653,824	-	-	2,653,824
Business type activities	-	893,914	-	893,914
Total disbursements	4,483,856	893,914	-	5,377,770
Excess of receipts over disbursements	(2,296,485)	(155,475)	-	(2,451,960)
Other financing sources, net	4,835,000	(15,000)	-	4,820,000
Excess of receipts and other financing sources over disbursements and other financing uses	2,538,515	(170,475)	-	2,368,040
Balances beginning of year	2,022,356	514,000	-	2,536,356
Balances end of year	\$ 4,560,871	343,525	-	4,904,396

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
795,783	795,783	11,345
86,553	86,553	(1,481)
338,152	338,152	(49,668)
52,925	98,925	(616)
36,025	58,675	4,502
2,243,797	775,384	(124,805)
2,014,306	2,022,406	(1,197,301)
-	-	-
211,984	404,384	(296,428)
5,779,525	4,580,262	(1,654,452)

717,719	733,369	127,207
457,844	463,844	139,057
6,500	6,500	3,750
393,479	393,479	(8,727)
51,531	62,638	9,656
234,047	263,043	22,886
287,073	2,709,616	2,508,628
1,904,984	1,375,910	(1,277,914)
1,927,478	2,233,978	1,340,064
5,980,655	8,242,377	2,864,607

(201,130)	(3,662,115)	1,210,155
201,130	5,125,708	(305,708)

-	1,463,593	904,447
2,922,361	2,922,361	(386,005)
2,922,361	4,385,954	518,442



City of Hudson  
Notes to Other Information – Budgetary Reporting  
June 30, 2012

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted receipts by \$3,725,315 and increased budgeted disbursements by \$2,261,722. The amendment was partially to reflect the new G.O. Bond receipts and the payoff of the 2006 G.O. Bond.

During the year ended June 30, 2012, disbursements exceeded amounts budgeted in the culture and recreation and the capital projects programs.

## **Other Supplementary Information**



## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2012

	NonMajor Debt Service Schedule 2	NonMajor Special Revenue Schedule 3	NonMajor Capital Projects Schedule 4	Total
Receipts:				
Property tax	\$ -	133,177	-	133,177
Tax increment financing collections	-	85,072	-	85,072
Other city tax	-	-	-	-
Use of money and property	-	2,840	-	2,840
Intergovernmental	-	68,844	187,015	255,859
Miscellaneous	-	-	-	-
Total receipts	-	289,933	187,015	476,948
Disbursements:				
Operating:				
Public Works	-	-	-	-
Culture and Recreation	-	342	-	342
Community and Economic Development	-	3,829	-	3,829
Capital Projects	-	-	256,609	256,609
Debt Service	200,988	-	-	200,988
Total disbursements	200,988	4,171	256,609	461,768
Excess (deficiency) of receipts over (under) disbursements	(200,988)	285,762	(69,594)	15,180
Other financing sources:				
Operating transfers in	200,563	2,000	-	202,563
Operating transfers out	-	(216,821)	-	(216,821)
Net change in cash balances	(425)	70,941	(69,594)	922
Cash balances beginning of year	990	149,316	(369,483)	(219,177)
Cash balances end of year	\$ 565	220,257	(439,077)	(218,255)
<b>Cash Basis Fund Balances</b>				
Restricted for Other Purposes	\$ 565	162,717	-	163,282
Unassigned	-	57,540	(439,077)	(381,537)
	\$ 565	220,257	(439,077)	(218,255)

See accompanying independent auditor's report

## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds-Special Revenue

As of and for the year ended June 30, 2012

	Special Revenue							Total
	#002 Ragbrai	#111 I JOBS	#112 Employee Benefits	#125 TIF Cap Proj	#126 TIF Surplus	#127 TIF	#182 Unemployment Payments	
Receipts:								
Property tax	\$ -	-	133,177	-	-	-	-	133,177
Tax increment financing collections	-	-	-	-	-	85,072	-	85,072
Other city tax	-	-	-	-	-	-	-	-
Use of money and property	-	-	-	-	2,840	-	-	2,840
Intergovernmental	-	68,844	-	-	-	-	-	68,844
Total receipts	-	68,844	133,177	-	2,840	85,072	-	289,933
Disbursements:								
Operating:								
Public works	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	839	1,000	1,990	342	3,829
Community and economic development	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	839	1,000	1,990	342	4,171
Excess (deficiency) of receipts over (under) disbursements	-	68,844	133,177	(839)	1,840	83,082	(342)	285,762
Other financing sources:								
Operating transfers in	-	-	-	-	-	-	2,000	2,000
Operating transfers out	-	-	(132,258)	-	-	(84,563)	-	(216,821)
Net change in cash balances	-	68,844	919	(839)	1,840	(1,481)	1,658	70,941
Cash balances beginning of year	(4,225)	(1,054)	(6,643)	11,337	150,379	(478)	-	149,316
Cash balances end of year	\$ (4,225)	67,790	(5,724)	10,498	152,219	(1,959)	1,658	220,257
Cash Basis Fund Balances								
Restricted for Other Purposes	-	-	-	10,498	152,219	-	-	162,717
Unassigned	(4,225)	67,790	(5,724)	-	-	(1,959)	1,658	57,540
	\$ (4,225)	67,790	(5,724)	10,498	152,219	(1,959)	1,658	220,257

See accompanying independent auditor's report

## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds-Capital Projects

As of and for the year ended June 30, 2012

	Capital Projects				
	#304 Safe Room	#305 North Tier	#306 Cedar St Strm Wtr	#307 Ardis St Project	Total
Receipts:					
Property tax	\$ -	-	-	-	-
Tax increment financing collections	-	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	-	-	187,015	-	187,015
Miscellaneous	-	-	-	-	-
Total receipts	-	-	187,015	-	187,015
Disbursements:					
Operating:					
Capital Projects	-	77,387	104,600	74,622	256,609
Total disbursements	-	77,387	104,600	74,622	256,609
Excess (deficiency) of receipts over (under) disbursements	-	(77,387)	82,415	(74,622)	(69,594)
Other financing sources:					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Net change in cash balances	-	(77,387)	82,415	(74,622)	(69,594)
Cash balances beginning of year	(12,349)	(148,645)	(208,489)	-	(369,483)
Cash balances end of year	<u>\$ (12,349)</u>	<u>(226,032)</u>	<u>(126,074)</u>	<u>(74,622)</u>	<u>(439,077)</u>
<b>Cash Basis Fund Balances</b>					
Unassigned	<u>\$ (12,349)</u>	<u>(226,032)</u>	<u>(126,074)</u>	<u>(74,622)</u>	<u>(439,077)</u>
Total cash basis fund balances	<u>\$ (12,349)</u>	<u>(226,032)</u>	<u>(126,074)</u>	<u>(74,622)</u>	<u>(439,077)</u>

See accompanying independent auditor's report

## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2012

	#670 Solid Waste	#601 Water Sinking	#611 Sewer Sinking	#740 Storm Water	#630 Electric	Total
Operating Receipts:						
Charges for service	\$ 123,404	-	-	35,085	-	158,489
Use of money and property	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total operating receipts	123,404	-	-	35,085	-	158,489
Operating Disbursements:						
Business type activities	125,145	-	-	14,766	-	139,911
Total operating disbursements	125,145	-	-	14,766	-	139,911
Excess (deficiency) of receipts over (under) operating disbursements	(1,741)	-	-	20,319	-	18,578
Non-operating receipts(disbursements):						
Debt Service	-	(43,445)	(32,988)	-	-	(76,433)
Excess of receipts over disbursements	(1,741)	(43,445)	(32,988)	20,319	-	(57,855)
Operating transfers in	-	43,445	35,032	-	-	78,477
Operating transfers out	-	-	-	-	-	-
Net change in cash balances	(1,741)	-	2,044	20,319	-	20,622
Cash balances beginning of year	16,528	(3,003)	3,075	34,981	16,503	68,084
Cash balances end of year	\$ 14,787	(3,003)	5,119	55,300	16,503	88,706
<b>Cash Basis Fund Balances</b>						
Unrestricted	\$ 14,787	-	-	55,300	16,503	86,590
Restricted for Debt Service	-	(3,003)	5,119	-	-	2,116
Total cash basis fund balances	\$ 14,787	(3,003)	5,119	55,300	16,503	88,706

See accompanying independent auditor's report



CITY OF HUDSON  
SCHEDULE OF INDEBTEDNESS  
JUNE 30, 2012

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance 7/1/2011</u>
General Obligation Capital Ln Notes, Series 2011	9/15/2011	.35-4.0%	\$ 4,815,000	-
General Obligation Capital Ln Notes, Series 2006	6/1/2006	3.85-4.3%	2,600,000	<u>2,195,000</u>
TOTAL GENERAL OBLIGATION				<u>2,195,000</u>
Sewer Revenue Capital Ln Notesd, Series 2006 CWSRF	6/16/2006	3.00%	500,000	<u>337,985</u>
Water Revenue Capital Ln Note, Series 2006 DWSRF	6/16/2006	3.00%	630,000	<u>506,000</u>
Water Revenue Loan and Disbursement Agreement Iowa Finance Authority Series 2010-A SRF DW LOAN-DSG0133R	2/15/2010	3.00%	183,000	<u>171,000</u>
Water Revenue Bond Iowa Finance Authority Series 2010B SRF DW LOAN DFG0134R	2/15/2010	3.00%	46,000	<u>46,000</u>

## Schedule 5

Issued During Year	Redeemed During Year	Balance 6/30/2012	Interest Paid	Interest Due and Unpaid
4,815,000	80,000	4,735,000	85,925	-
-	2,195,000	-	90,738	-
4,815,000	2,275,000	4,735,000	176,663	-
-	22,000	315,985	9,986	-
-	27,000	479,000	16,445	-
5,000	7,000	169,000	5,553	-
-	-	46,000	-	-

## City of Hudson

## Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Capital Loan Notes		Sewer Revenue Clean Water SRF		Water Revenue Drinking Water SRF		Water Revenue Bonds Drinking Water SRF	
	Issued June 1, 2006		Issued June 16, 2006		Issued June 16, 2006		Issued Feb. 15, 2010	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rate	Amount
2013	0.50%	\$ 215,000	3.00%	22,000	3.00%	28,000	3.00%	7,000
2014	0.65%	220,000	3.00%	23,000	3.00%	29,000	3.00%	7,000
2015	0.95%	225,000	3.00%	23,000	3.00%	30,000	3.00%	8,000
2016	1.20%	225,000	3.00%	24,000	3.00%	31,000	3.00%	8,000
2017	1.50%	265,000	3.00%	25,000	3.00%	32,000	3.00%	8,000
2018	1.80%	280,000	3.00%	26,000	3.00%	32,000	3.00%	8,000
2019	2.10%	280,000	3.00%	26,000	3.00%	33,000	3.00%	9,000
2020	2.30%	295,000	3.00%	27,000	3.00%	34,000	3.00%	9,000
2021	2.50%	290,000	3.00%	28,000	3.00%	35,000	3.00%	9,000
2022	2.75%	300,000	3.00%	29,000	3.00%	37,000	3.00%	9,000
2023	2.85%	310,000	3.00%	30,000	3.00%	38,000	3.00%	10,000
2024	3.00%	320,000	3.00%	31,000	3.00%	39,000	3.00%	10,000
2025	3.15%	330,000	3.00%	1,985	3.00%	40,000	3.00%	10,000
2026	4.00%	330,000			3.00%	41,000	3.00%	11,000
2027	4.00%	160,000					3.00%	11,000
2028	4.00%	165,000					3.00%	11,000
2029	4.00%	170,000					3.00%	12,000
2030	4.00%	175,000					3.00%	12,000
2031	4.00%	180,000						
		<u>\$4,735,000</u>		<u>315,985</u>		<u>479,000</u>		<u>169,000</u>

## Note:

Sewer Revenue Note totals \$500,000 but at June 30, 2012 the City had borrowed only \$415,985 and had paid back \$100,000 leaving a balance of \$315,985. The above is based on the original schedule.

See accompanying independent auditor's report

## City of Hudson

Schedule of Receipts by Source and Disbursements By Function  
All Governmental Funds

For the Last Nine Years Ended June 30

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 807,128	767,740	735,485	702,182
Tax increment financing	85,072	89,587	85,291	85,849
Other city tax	288,484	255,398	260,965	256,879
Licenses and permits	98,309	63,266	47,850	39,445
Use of money and property	59,277	36,051	116,637	109,803
Intergovernmental	650,579	369,220	339,158	304,243
Charges for service	90,566	71,704	61,605	65,139
Special assessments	-	-	-	-
Miscellaneous	10,345	55,207	24,788	26,476
Total	\$2,089,760	1,708,173	1,671,779	1,590,016
Disbursements:				
Operating:				
Public safety	\$ 606,162	466,753	390,220	733,212
Public works	324,787	420,462	339,263	325,640
Health and social services	2,750	3,000	3,000	3,045
Culture and recreation	402,206	362,891	319,378	306,881
Community and economic development	52,982	46,994	43,225	44,230
General government	240,157	192,430	245,411	240,505
Debt service	200,988	200,388	199,338	203,338
Capital projects	2,651,324	289,216	80,341	-
Business type	-	-	-	-
Total	\$4,481,356	1,982,134	1,620,176	1,856,851

See accompanying independent auditor's report



**Schedule 7**

2008	2007	2006	2005	2004
664,085	663,057	679,949	579,612	368,284
83,541	53,445	61,042	337,583	486,161
252,649	224,717	233,252	218,195	208,337
43,283	37,024	40,125	33,009	29,230
87,998	114,536	104,153	76,821	131,948
329,042	288,862	400,681	430,497	429,640
63,575	41,355	25,971	27,054	29,522
-	-	-	-	-
76,147	32,389	37,620	32,569	30,173
1,600,320	1,455,385	1,582,793	1,735,340	1,713,295
407,123	408,563	435,337	344,562	392,908
332,346	960,408	599,231	321,786	330,094
3,000	4,500	2,500	1,787	664
310,679	314,752	276,246	346,490	389,201
46,921	601,328	140,978	74,673	158,660
241,598	227,196	245,170	208,078	205,096
206,939	106,938	952,913	177,773	177,063
383,001	-	38,395	123,745	-
-	-	-	-	-
1,931,607	2,623,685	2,690,770	1,598,894	1,653,686

**City of Hudson**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Hudson is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hudson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material statement of the City of Hudson's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as II-A-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 to be a significant deficiency.

#### Compliance and Other Matters

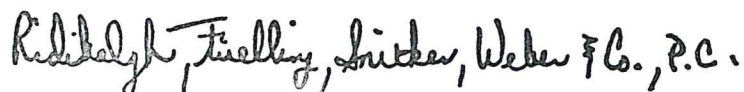
As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hudson and other parties to whom the City of Hudson may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

November 2, 2012



**City of Hudson**

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2012

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statement.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. City of Hudson is a small city with an office staff consisting of one utility clerk, one accounts payable/data entry clerk, one receptionist/secretary and a city clerk. All four employees can have custody of cash before depositing. The utility clerk, accounts payable/data entry clerk and the receptionist can record cash as it is received. The utility clerk, accounts payable/data entry clerk and the receptionist/secretary prepare deposit tickets.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its controls procedures in an attempt to maximum internal control where possible under the circumstances.

Conclusion – Response accepted.

II-B-12 Preparation of Financial Statements – The City of Hudson, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The

requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

### **INSTANCES OF NON-COMPLIANCE:**

#### **Part III: Other Findings Related to Statutory Reporting:**

III-A-12 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.

III-B-12 Certified Budget – City disbursements exceeded budgeted amounts in the culture and recreation and in the capital projects activities functions during the year ended June 30, 2012.

Recommendation - The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The over expenditure in the capital projects activity function was a miscoding. The amount was budgeted under the debt service function, but the expenditure was coded to capital project. In regard to the culture and recreation activity function the budget will be amended in the future, if applicable.

III-C-12 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mary Bucy, Library Director, Owner Bucy Cleaning	Janitorial services	\$5,785
Steve Kofron, city employee, Owner Kofron Auto Restoration	Vehicle Maintenance	\$3,000

The transaction with the Library Director and a city employee do not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

III-F-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- III-G-12     Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-H-12     Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.
- III-I-12     Payment of General Obligation Bonds - The General Obligation Capital Loan Notes, Series 2006 were paid from Capital Project-Bond Sale 2011 fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”
- Recommendation – In the future the City should transfer any potential payments against general obligation bonds into the Debt Service Fund. Payment on bonds should be disbursed from the Debt Service Fund.
- Response – We will transfer in the future as recommended.
- Conclusion – Response accepted.



City of Hudson  
Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

James Remington, Staff